

FLASH REPORT

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Contributors**Juan Manuel Herrera**

Senior Economist

+52.55.2299.6675 (Mexico)

juanmanuel.herrera@scotiabank.com

Uneventful BoE Rate Hold with Continued Caution

- The Bank of England held its policy rate steady at 4.00% with a 7–2 hold-cut vote split, and announced a reduction to its pace of quantitative tightening, all as was widely expected.
- The BoE's guidance around the outlook for future rate cuts was left unchanged, as a "gradual and careful approach" to additional easing "remains appropriate," while upside inflationary risks "remain prominent."
- The bank's next rate cut seems unlikely to come at the November meeting barring important downside surprises in the single CPI and wage figures due between now and the decision. We continue to forecast that the BoE will close the year with a 25bps rate cut in December, sticking to a quarterly, gradual, unwinding of policy restriction.

In today's decision, the Bank of England held its policy rate steady at 4.00% as was widely expected by all economists and markets, and Scotiabank Economics while announcing a reduction to its pace of quantitative tightening from £100bn to £70bn a year starting in October (also as expected). BoE officials were split 7–2 in today's decision with doves Dhingra and Taylor preferring a 25bps reduction (which was also not surprising) to follow August's quarter-point cut when voters were divided 5–4.

The BoE's guidance around the outlook for future rate cuts was left unchanged, as a "gradual and careful approach" to additional easing "remains appropriate" and that the "timing and pace of future" cuts will depend on the evolution of underlying disinflationary pressures (namely wages or other labour costs). The statement now also highlights that "upside risks around medium-term inflationary pressures remain prominent in the Committee's assessment of the outlook."

The timing of the next BoE rate cut remains highly uncertain but, as things currently stand, the next rate reduction seems unlikely to come at the November decision when the BoE will also update its macroeconomic projections. The UK Budget is also scheduled for November 26th, possibly complicating the BoE's certainty over its growth and inflation expectations presented earlier in the month.

Given the cautious stance by the BoE and its officials, single CPI, employment, and monthly GDP releases as well as two PMI readings between now and the November meeting are unlikely to provide the bank with enough information to roll out another rate cut at their next meeting unless we see significant undershoots vis-à-vis the August MPR (particularly in wages and inflation).

We continue to project a 25bps rate cut will come at the December meeting as the BoE sticks to a gradual unwinding of restriction, setting aside fears by the hawks in the Monetary Policy Committee that there are structural factors in labour markets and wage setting—and inflation expectations—that require a more restrictive stance. In light of the latter, there does remain decent odds that the BoE delays the resumption of easing until 1Q25 given wage and labour costs pressures.

With the BoE meeting expectations and giving little away in today's decision, while wages and inflation data are not yet turning the corner to slower readings (the BoE anticipates a significant slowdown in pay growth), markets failed to materially shift their expectations for UK policy rates. At writing, traders are only assigning about a ~10% chance of a cut in November, followed by a ~25% probability in December.

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